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SUBJECT: CHINESE ACTIVITY IN HONDURAS

REF: SECSTATE 138041

Classified By: CHARGE D'AFFAIRS JAMES G. WILLIARD A.I. FOR REASONS 1.4
(B) AND (D).

1. (C) Summary: This cable is a response to refTel request for updates on Chinese activity in Latin America and the Caribbean. Honduras has no significant public or private sector ties to the People's Republic of China (PRC). Data indicate a limited but growing trade relationship between Honduras and China. Honduran business community and public opinion reflect great concern regarding the increasing influx of Chinese goods on the Honduran market, which could displace locally made products. In addition, the vitally important maquila sector faces ongoing price competition from the PRC in apparel and textile sales to the United States, and fears that Chinese competition will alter the Honduran industry in the near future. The PRC does not have diplomatic relations with Honduras, and has no military to military contact. End Summary.

Economic Issues

2. (U) Honduras has a growing trade deficit with China. China represents a small portion of total Honduran exports and imports; however, Honduras has seen a marked increase in Chinese imports over the past year and a half. In the first five months of 2005, total imports from Honduras are up 23 percent over 2004, but total Chinese imports represent 3 percent of all imports.

3. (U) According to Honduran Secretary for Commerce and Industry (SIC) in 2003, total Honduran exports to China totaled only USD 1.9 million. (Note: Post has requested 2004 and will forward data as soon as it becomes available. End Note.) Silver was Honduras, number one export to China (USD 1.3 million), followed by aluminum (USD 333,677). In that same year, Honduras imported USD 28.8 million in Chinese goods and services. Available data doesn't clearly break down which products were imported, with USD 15.9 million in imports classified as "other" (likely consumer products). Of the remaining imported products, Honduras bought USD 1.2 million in dried fish, USD 1.2 million in mussels and shellfish, and USD 1.1 million in fresh cheese from China.

4. (U) The PRC Xinhua News Agency reports total 2004 Honduran imports of Chinese goods as USD 123 million. In the first 5 months of 2005, this amount has increased by 23 percent over the first 5 months of 2004. Meanwhile, Honduran exports to China in all of 2004 totaled USD 11.7 million, while already in the first five months of 2005 total exports have increased by 173 percent to USD 10.8 million. Rebecca Reyes, Director of External Relations at SIC, credits the increase in imports nearly entirely to increases in consumer goods imports.

5. (U) While total Honduran imports from the PRC are increasing quickly, they represented only 3 percent of total imports in 2004. In comparison, Honduras imported USD 1.358 billion (35 percent) from the United States. (Note: This figure excludes inputs for re-export by the maquila sector, which represent another half a billion dollars in U.S. goods exported to Honduras. As technically offshore entities, these businesses do not officially import goods, and the value added from maquila production is booked in the "services" account. End Note.) Post anticipates an increased presence of Chinese goods in the Honduran marketplace, but current volume is small.

Public Opinion

6. (U) In a series of roundtable discussions with Chambers of Commerce members and executives around Honduras, EconOff noted significant concern within the business community about the increasing influx of Chinese goods to the Honduran market, which they believe will come to displace locally made products. Honduran businesses are equally concerned about

market share in their export markets, particularly the U.S. Industries as varied as tool manufacturers, artisan shop owners, shrimp farmers, and textile manufacturers cite China as the number one obstacle to U.S. market penetration. These fears are exacerbated by U.S. press attention on increased Chinese influence in the U.S. economy.

17. (SBU) Shrimp farming in the southern city of Choluteca has grown into one of the largest industries in that region. However, industry specialists report price decreases on the international market of one third versus last year, which they blame on cheaper shrimp produced in China (under what they say are environmentally detrimental farming practices and overcrowded ponds). However, one company commented that while bulk shrimp prices have fallen, value-added shrimp product prices have remained stable, and this company intends to expand its workforce in the coming five years by 1,000 employees. This firm has expanded its sales to one U.S. buyer by branching out from seafood exports into other frozen foods. By night, this shrimp processor processes jalapeno peppers. Through diversification and value added production, the shrimp company expects continued growth, despite increased competition from China.

18. (U) We have heard similar predictions from Imapro, a producer of handicrafts, which intends to compete with quality rather than price in the export market. Industry leaders are recognizing areas in which they can compete with China for U.S. market share, and are making adjustments to foster those niche advantages. For example, "full package" maquilas expect to compete with China based upon time-to-market advantages and by offering full-service, vertically-integrated production to prospective clients. Most industry representatives expressed doubt, however, about the continued viability of companies that do not find and foster these types of economic advantages.

Investment

19. (SBU) According to the Honduran Manufacturers Association (AHM), there are four Chinese-owned manufacturers in Honduras: Dong Xian Xu, Dragon Maya, Ensambles Industriales, S.A. (the latter two both joint Honduran-Chinese ventures, with the Honduran Kattan family owning significant stakes), and Dragon Head Textiles. According to Angela Castilla, Director of Promotion at AHM, Dragon Head recently laid off all its workers except for five administrators, and is currently looking for new orders. Though dollar values were not available, Ms. Castilla went on to note that Chinese companies represent less than 1 percent of all maquila investment in Honduras. (Note: These figures do not include Taiwan and Hong Kong, whose investors own 5 and 6 maquilas, respectively).

10. (SBU) In numerous conversations with maquila owners and industry executives, China has been the number one hot topic of conversation, less for its operations in Honduras than for the anticipation of competition for the U.S. market. Despite these private concerns, Honduran industry and government officials remain publicly optimistic that Honduras, industry will remain competitive on the world stage. Castillo emphasized that in the first 6 months of 2005, Honduras remained the third largest supplier of finished textile and apparel goods to the U.S. market, and the Central Bank of Honduras predicts the sector will grow 10 percent in 2005. Conversations with management of several maquilas, who credit the positive AHM spin to political pressures, were less rosy. Several commented that while Chinese rivals cannot yet compete on consistent quality, it is only a matter of time before the Chinese will make necessary adjustments. One firm, Grupo Beta, currently employs 5,000 workers, but anticipates that it will need to halve its workforce in the next 5 years in order to compete with the Chinese.

11. (U) There is a general consensus, both within the AHM and among individual firms, that the textile manufacturers most diversified into "full package" regimes are the ones best poised to compete with increasing Asian competition. Other "cut and sew" operations, producing unspecialized products (and in particular local maquilas that depend on overflow orders from the larger, foreign-owned maquilas operating in Honduras) will have a difficult time competing with China.

Taiwan

12. (SBU) Honduras maintains diplomatic relations with the Republic of Taiwan, and Tegucigalpa maintains a sister city relationship with Taipei. In a March 29 meeting, then-Vice Minister of Trade Irving Guerrero (now Minister of Trade) indicated that the Taiwanese were interested in pursuing a free trade agreement with Honduras, but Guerrero dismissed

the prospect as being not worth our time., Pointing out that trade between Honduras and Taiwan is minimal, Guerrero asked, &What would we gain from a deal with them?8 He went on to state that only if the Taiwanese offered a significant Trade Capacity Building program or valuable technology transfer would an agreement be attractive to Honduras. It would be not the trade, but the associated aid, that would be worthwhile.

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Military / Organized Crime Issues
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13. (C) There is no military contact and/or assistance between China and Honduras, nor any Chinese military-to-military contacts and efforts to sell weapons to Honduras.

14. (C) Post has information that suggests Greater China organized crime groups may have a limited presence within the country.

15. (S/NF) They have been involved in smuggling of PRC Chinese immigrants into the country for the last 15 years. According to the Ministry of Government and Justice that oversees Honduran Immigration, since 2002, 172 foreigners have been naturalized, including 13 Chinese citizens. Press reports have estimated that the Chinese have spent approximately USD 400,000 in Honduras through payoffs to Immigration officials and other illegal activities. (Comment: SIMO provided information that the numbers are much higher. Since January 2002, an estimated 50 illegal Chinese immigrants per month have entered the country. From January 2005, those numbers have increased to about 75 - 100 per month. Approximately USD 2,500 in corrupt payments are made to Immigration for the documentation in each case. Post believes that a number of these illegal immigrants may have migrated north across U.S. borders. According to statistics from the Bureau of Consular Affairs, worldwide since 2001, approximately 210-215 PRC-born Honduran passport holders have applied for U.S. visas. End Comment)

16. (C) The evidence suggests that the Chinese organized crime groups are tied into Chinese restaurants and small Chinese-owned businesses. Some phony requests for Honduran visas for Chinese are for workers in these businesses.

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